

## On the relationship between Ethics and Economics\*

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### ABSTRACT

New Welfare Economics and Social Choice Theory have given rise to a group of problems which lie on the frontier between Economic Theory and Ethics. The attempts to deal with these problems have generated a literature known as «on Ethics and Economics». The analytical developments of concepts like utility, preferences or well-being and notions like meta-preferences, agency or commitment (Sen) all connect directly to the ethical dimension that any Theory of Value presupposes. In relation with the Theory of Choice, concepts like rationality, consistent election and self-interest impede the accommodation of behaviors like altruism or others whose consequences do not affect directly to the acting agent. The perceived difficulty to link ethical aspects of actions with standard Economic Theory allows us to qualify the relationship between Economics and Ethics as one of mere juxtaposition.

*Keywords:* Ethics and Economics, Theory of Value, Theory of Choice, Utility, Preferences, Rationality, Consistency.

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## 1. INTRODUCTION

Because of the historical development of New Welfare Economics (NWE), firstly, and of Social Choice Theory (SCT) secondly, a group of problems has arisen, and the attempts to solve them have resulted in a set of theoretical results on the frontier between Economic Theory and Ethics. In this set it is necessary to distinguish, on the one hand, between a Theory of Value that deals with the identification and analysis of the hierarchical ordering of ends —individual or collective ends—; and, on the other hand, a Theory of Choice that analyzes the methods to achieve efficiently the proposed ends in individual or collective environments.

Within the Theory of Value, impossibility theorems, paradoxes and anomalies commonly analyzed in the literature seem to show the limits of the analytic development of the classical concepts of utility, preferences or well-being. The attempts to overcome these limits, by means of notions like meta-preferences, agency or commitment (Sen), connect directly to the ethical dimension that any Theory of Value presupposes. Moreover, in the Theory of Choice, the identification of rationality, consistent choice and self-interest impedes a correct understanding of behaviors like altruism or others whose consequences do not directly affect the particular agent. The perceived difficulty to link the ethical aspects of human action with some standard Economic Theory issues, might allow us to qualify the relationship between Economics and Ethics as one of mere juxtaposition.

The main objective of this work is to show the analytical foundations that point out this relationship, specifically in a Social Choice and Welfare Economics context. This paper does not pursue to establish the link for the integration of Ethics and Economics —a rather difficult task— but to specify some of the main elements in the explanation of the prevalent link between Ethics and Economics in the literature. It is a critical survey on the state in which Ethics and Economics are related (by juxtaposition) in standard Economic Theory and on the main analytical consequences implied by this type of relation.

This paper explores these questions as follows. Section 2 presents the antecedents of the debate «on Ethics and Economics» from the perspective of standard Economic Theory. Section 3, points out the main problems appearing within the relevant debate by pointing out some theoretical attempts to link «ethics and economics». Section 4 poses the thesis, which we have denominated the relation of «juxtaposition between ethics and economics». Finally, the paper offers a brief conclusion.

## 2. THE TOPIC «ON ETHICS AND ECONOMICS»

The antecedents of the theoretical connection between Ethics and Economics go back, at least, to Aristotle who conceived Economics as a part of practical Philosophy together with Politics and Ethics. At the beginning of his *Nicomachean Ethics*, Aristotle places Economics in relation to human ends by referring to the specific purpose of Economics as a set of methods or skills oriented to the objective of increasing wealth (crematistic). On the contrary, Politics is considered to be the main art that one should use «for the rest of the sciences», including Economics, since Politics settles down what should and should not be done to reach the final objective of Politics, that is, the good for human happiness (Aristotle, *Nicomachean Ethics*, Book I).

From this tradition of thought, beginning with the Greek philosophers and continuing right up to the present, an entire history of diffusion of ideas has developed. Chafuen (1991) expresses the dissemination of these ideas in the western world by means of a genealogical tree in which «late scholastic Economics» is at the root (Chafuen 1991, p. 33). It is broadly accepted (Beltrán, 1993, p. 38-44, chapter IV of Rothbard 1999, and Grice-Hutchinson, 1978) that the Hispanic Scholastic allowed the diffusion to work, thereby allowing us to identify the background from which the work of Adam Smith was born in 1776.

Notwithstanding these origins, Economics did not continue to wear the coat of Philosophy, in particular, of Moral Philosophy, but rather it was operating a division toward its autonomy as a scientific discipline. The discipline ceased to be *Political Economy* and became *Economic Science*. It was towards the end of the nineteenth century when we find the idea that the decisions of economic agents, and not the investigation on the nature and causes of wealth should be the central objective of this «new» science. This fact coincides with the widespread acceptance of a new Theory of Value (the subjective Theory of Value) that places the concept of utility as the keystone of the entire economic analysis, thus implying a redefinition and reorientation of the discipline.

At this foundational epoch of the new economic science, the so-called Marginalist Revolution, a new division takes place; a rupture that leads to the identification of at least two clearly different traditions. Firstly, the tradition that gave origin to the Neoclassical paradigm (headed by Walras and Jevons) which accentuates the scientific character of Economics by adopting the canon of Physics—in particular, rational mechanics—at the price of radically separating the economic science from the Ethics. In this tradition, Robbins (1938) points out the impossibility of relating Eco-

nomics and Ethics, outside of mere juxtaposition. The second tradition, also within marginalism, it is inaugurated by Menger and continued by his Austrian disciples. This tradition insists on human action and its enterprenurial development as the kernel of Economics (Hayek, 1935). This tradition does not assume Physics as a scientific canon, nor does it take Mathematics as the language of the social sciences.

Of these two traditions, the first one has been preponderant to the point to which modern Economics is often identified with Neoclassical Marginalism. It is within this context, where, traditionally, the concern and subsequent reflection on the relationship between Ethics and Economics has arisen. In particular, it is worth mentioning the schools of thought that, in a first stage, can be recognized as Welfare Economics and from which derives, at a later stage, New Welfare Economics (Bergson, 1938, 1954; Hicks, 1939; Samuelson 1947, 1948; Scitovsky, 1941, 1942) and Social Choice Theory (Arrow, 1950, 1951). These schools were born as a consequence of the problems of social election that emerge in the western societies in which Public Sector increases its weight giving origin to important questions of justice, equity and redistribution.

The so-called Welfare Economics arises from the possibility of transferring resources among agents for the sake of greater equity without affecting efficiency, according to the second Theorem of Welfare Economics. The traditional notions of Welfare Economics are based on the approach of Pareto, on compensatory approaches, and on Social Welfare Functions: these approaches consider «aggregate» preferences over the distribution of utility among the different individuals of a collective. Under this conception, the Public Sector turns out to be a benevolent agent whose performances should contribute to increasing general well-being. The discussion of the agents' goals is the discussion on which function of well-being should be chosen in order to carry out the pertinent distribution. The ruler's preferences in connection with the desired distribution of resources is summarised in a Social Welfare Function, according to the position of Bergson and Samuelson (similar to an individual's utility function but referred to the aggregate). It is a means of establishing specific «decisions on ends» without concern to either who actually establishes them or how the ordination of preferences that such a Social Welfare Function implies is reached.

The explicit consideration of the mechanisms of aggregation of individual preferences carried out by Arrow (Social Choice Theory), as well as of the collective decision-making processes in a typical democratic system (Public Choice Theory), caused the crisis of Welfare Economics. Consequently, the sense of the theory is reoriented from an ingenuous normative plane when considering the performances of the Public Sector, to another more realistic one that analyzes how such collective

decisions are in fact adopted. Indeed, when thinking about the possibility of taking collective decisions starting from individual preferences with some desirable properties, Arrow obtains his Impossibility Theorem, and ends up questioning the viability of the New Welfare Economics and opening the way to the Social Choice Theory.

The theoretical development of the Social Choice Theory can be summarized as follows: (a) it begins with the study of choice criteria and the outcomes reached under different rules of collective choice (extension of Social Choice Theory —years 60-75 approximately<sup>1</sup>. (b) It continues with a critical vision and the searching for solutions to the problems outlined by social choice (critical period —years 75-85)<sup>2</sup>. (c) It ends with the generalization of the debate «on Ethics and Economics» because of the open discussion concerning the problems of the theory of social choice (division of the previous research program, from the decade of the 80s onwards).

Here we can verify what we believe constitutes a *paradox*: the necessity of considerations of an ethical kind is imposed, but from that tradition of Economic Theory whose antecedents had been focused on allocative aspects of human behavior. Indeed, the conventional literature «on Ethics and Economics» is developed mainly by authors that start from a concern for the technical aspects of the allocative processes such as social development of compensatory approaches, rules of collective choice, and relative theorems of impossibility.

These authors finish at wondering about the sense of an Economic Theory that does not examine the content and hierarchy of the ends of the individuals. An excellent exponent of this analytical process is Sen.

As it has been shown, to proceed in this manner is coherent with a program that arises as one of the branches of Neoclassical Economics in its most modern version, that is, Social Choice Theory. The concern arises where this theory is not able to explain *de facto* situations. Thus, the attempt to solve a particular group of problems has focused attention on the relationship between the economic «be» and the ethical «should be».

<sup>1</sup> See Arrow (1959); Little (1949, 1952, 1957); Sen (1964, 1966, 1969) and especially Sen (1970); Sen & Pattanaik (1969); Tullock (1946, 1964, 1967); Uzawa (1959); Pattanaik (1971); Plott (1976); Pollak (1979).

<sup>2</sup> General critical visions are Buchanan (1954, 1964) and Sugden (1981, 1985, 1986). Some critical publications «from inside of» of STC are: Sen (1970), considered to be the inflection point in thought; Sen (1976, 1977, 1983, 1985, 1992, 1993); Harsanyi (1955, 1976, 1982) and Suzumura (1978, 1980).

In the context of Social Choice and of the welfare theory, Ethics and Economic Theory have to do with arguments posed in terms of questions on the «good» and its achievement<sup>3</sup>. The fundamental elements of both, that would relate, them, are, respectively, a Theory of Value and a Theory of Choice. The Theory of Value would have in its kernel the identification of what is «good», while the Theory of Choice would determine the way in which that «good» can be achieved «in its higher degree», that is, the choice of the correct way to arrive at the best end by means of the involvement of specific types of actions and/or institutions.

Standard Economic Theory provides, on the one hand, a way of ordering preferences and satisfying them (properties of good ordering of the ends); and on the other hand, it provides a theory —known as rational choice— that would characterize the agent's action (properties of good ordering in the means or instrumental rationality). Thus, one would have a framework for valuation as well as a way of achieving what is valued, respectively.

Some elements of the debate on Ethics and Economics would deal with the way in which personal interests and preferences together with rational choice, are capable of laying the foundations for the moral action, understood as the action that points out the good end, individually or socially considered (Sen 1993, p.4).

Typical problems located on the frontier between Economic Theory and Ethics are, for example, the following: (a) the relationship between preferences, utility and well-being; (b) their relationship to the notion of the «good». (c) Interpersonal comparisons of value. (d) The meaning of economic rationality; (e) the identification of economic rationality with «self interest»; (f) the relationship between economic rationality and morality; (g) the unfolding of agency and well-being aspects. (h) The justness-like aspect of the good and its effects on the choice of actions and institutions and (i) the compatibility of well-being, freedom, rights and choice<sup>4</sup>.

Given this, we find a catalogue of examples of problematic questions that have to do with the ends pursued by the agent, and that serves as a foundation for the development of the debate «on Ethics and Economics». In the following Section, we expose the conventional problems concerning the Theory of Value and the Theory of

<sup>3</sup> Sen (1987, p. 10) relates them beginning with the Socratic question of how it is necessary to live. Griffin (1993) outlines it along similar lines.

<sup>4</sup> It is necessary to point out, also, the existence of an entire parallel literature applied to ethics in business. This literature is outside the scope of the present paper.

Choice, as well as the attempts to overcome them by starting from those that it might be denominated as integrative theories.

### 3. CONVENTIONAL PROBLEMS: THE DEBATE «ON ETHICS AND ECONOMICS»

In order to present some of the main problems within the debate between Ethics and Economics, we will organize the topics around two fundamental blocks that, as it has already been stated, correspond to the basic intersecting areas between Ethics and Economics. The first block concerns the question on how an individual values (the Theory of Value). Once the valuation has been made, the second block concerns the question of how he/she does choose (the Theory of Choice).

#### 3.1. *Problematic questions related with the Theory of Value*

It is evident that before a choice can be made, a valuation is necessary. An individual who seeks the «good» for him/herself, first values it as such, and then he/she chooses it. Some of the concepts used by Economic Theory relating to the Theory of Value are utility, preferences, meta-preferences, well-being, agency, achievement, and valuation. The fundamental question now is *if these concepts are capable of dealing with the ethical considerations* to what choices, eventually, an agent must face. To cope with this fundamental question, firstly, we will consider the concept of utility and its relationship with border concepts, together with a brief note about interpersonal comparability of utilities. Then, we will expose the most important attempt to transcend the concept of personal utility, this is the so-called preferences over preferences.

##### 3.1.1. Utility, preferences and well-being

The term *utility* is central in economic analysis and in the ethical tradition of the utilitarianism from which it arises. In addition, it is the key concept to understanding the Theory of Value that comes from the Marginalist Revolution. In order to detail the debate pointed out in this section around this term, two controversial questions have emerged: (a) how utility is related to other key concepts that reflect the agent's subjectivity; and (b), the type of moral principles implied by utilitarianism.

The controversial question (a) is complex due to the difficulties derived from the

fact that, oftenly, different authors use the same word to express different realities. It seems accepted that *utility* constitutes the origin of value while *preferences* are the base of rational choice. In this way, two of the fundamental areas of modern economic analysis are thus connected. However, a series of problematic aspects arise from this distinction:

1. We can find understandings of preferences as mental satisfaction (Marshall, 1890; Pigou, 1920, 1952), desires (Ramsey, 1931; Hicks, 1939), choices (Samuelson, 1947; Harsanyi, 1955), values (Arrow, 1951), and so there are interpretive variations depending on the specific context of the analysis.
2. Moreover, the notion of utility is confused with that of preferences, leading to terms like «satisfaction», «desire» or «election». «Utility» embraces anything that the agents want to value.
3. As a third element, the term «welfare» appears, and this is based on utility, but its clear definition is very difficult, given the two previous problems. Thus, a state can be judged as good if it is possible to specify a function for the utility of that state that allows one to examine —via sum-ranking<sup>5</sup> of the utilities in that state— if this particular state is better or worse than another.
4. Given these previous points, it turns out that an individual values an achievement in terms of its consequences. That is, a choice of an action, an institution, or a norm, is conditioned by the goodness of the emerging social state, calculated in terms of the welfare based on utility.

Thus, individual utility constitutes the «ethical» evaluation of the states; this is the moral principle implied by utilitarianism (aspect (b) above).

Some arguments allow us to understand the above (a) and (b) questions. In the first place, to locate preferences as the basis of choice has been one of the ways of preserving the foundation of the New Welfare Economics. A theory would have very little to say concerning the evaluation of social states if, in that evaluation, the preferences of the individuals are not somehow contemplated. This is the reason why, from the initial stages of the New Welfare Economics tradition, the individual's preferences are left out. Now then, an answer was soon found and, beginning with Arrow, impossibility theorems that seek to show the inadequacy of such a basis for collecti-

<sup>5</sup> Criticism outlined by Sen (1987, p. 39).

<sup>6</sup> On functional of social welfare see Sen (1979), Hammond (1976), and Arrow (1977).



ve decision-making have been formulated. In this way, an alternative manner of tackling decision problems based on social choice functions that ignore the problems of Arrow's impossibility theorem has emerged<sup>6</sup>.

In this process, there has been a change in foundation, not necessarily explicit, but of radical importance. That is, many economists work with a new concept of utility (soon extended in the discipline) that could be denominated «lax utility» whose main purpose is to serve as a convenient form of reference for welfare in a wide sense, without the derived conceptual restrictions of tinged meanings. Firstly, preferences were introduced as the foundation of the choice that gives rise to the NWE.

Then, utility and preferences are merged together conceptually to facilitate the advancement of the program of welfare economics—a very clear specification of the different categories would interfere with the very expansion of the results—. Lastly, *lax* utility is linked with welfare to create the welfare functionals and to extend SCT, eliminating the problems that have arisen in welfare economics.

As a result, from a group of developments that were largely axiomatic and designed to bolster SCT, the conceptual foundation that sustained the framework of the earliest welfarism (dedicated to delimit clearly and specifically such central concepts as utility, preferences and well-being) was placed in the background, while the use of the generic concept denominated by us as *lax* utility was expanded. This process would explain the controversial questions mentioned above related to the key concept of utility.

### 3.1.2. Interpersonal comparisons of utility

After the extension of the focus of ordinal utility, in the first third of the twentieth century, questions that had to do with the possibility of measuring and comparing the utility characteristic of the cardinal focus entered into disuse. The idea that interpersonal comparisons of utility implied a normative judgement (Robbins, 1938) was extended, and the use of Paretian optimality was imposed as the only source of comparison over states, as this was identified with economic efficiency in the valuation of social achievements. The possibility of measuring utility, or its commensurability, was eliminated together with its interpersonal comparability (Scitovsky, 1951). The foundations of the NWE had been set.

However, in order to explore controversial issues, it is convenient to distinguish carefully between commensurability and comparability. If utility is identified with

happiness, its measurement makes no sense. Now then, if utility is to be understood as the representation of the underlying preferences, then when one chooses one alternative over another, a preference is revealed by the alternative that is chosen; that is to say, the associated utility is larger in that case, which implies that you can measure the agent's utility as an index. Some economists maintain that, although utility can be measured in this sense, this does not mean that interpersonal comparisons are possible by using these measures. Others, however, had argued that the rejection of such comparisons is not due so much to the concept of utility upon which it rests, but rather to the fact that we could have several types of methods for the comparison that do not necessarily yield the same results (Sen, 1980; Hammond, 1991). In the opinion of Sen (1970b), Arrow's impossibility theorem would have shown the contradiction caused by the exclusion of the use of the individual comparisons to achieve a consistent and complete social election that was capable of satisfying some seemingly weak conditions of rationality. In this sense, Sen offered an example of how simple cardinality without comparability cannot be useful to obviate the impossibility of Arrow (on a functional of social welfare). We have highlighted this example because it allows us to justify the importance of this polemic issue for interpersonal comparisons: the theoretical formulation of the NWE rejected interpersonal comparisons; and the reflection on the same questions gave rise to the SCT. Thus, a polemic issue opened a new line of research.

The fact that the questions of commensurability and comparability share a common ground over the meaning of utility has taken root in the welfare vision that links utility with revealed preference, and it has relegated those issues<sup>7</sup> relative to others of more fundamental type, such as those that we will analyze in what follows.

### 3.1.3. Preferences over preferences, or a movement towards the subject's motivation

One of the questions that have arisen because of the reflection on the foundations of the theory has to do with the type of agent's characterization assumed by the theory. This characterization opened an important attempt to transcend the concept of personal utility. In this approach, the individual's only source of value is utility, which has been fully identified with his preferences, whose maximization determines individual

<sup>7</sup> Revisited, however, recently. See Roth (1999).

welfare. Now, since preferences cannot be observed directly, but rather are revealed by the choices made, it has been traditional to assume that they possess a certain hypothetical structure, with the objective of working with a certain degree of security in the development of results or microeconomic theorems<sup>8</sup>. These hypotheses generally have made correspond certain «observed behavior» by the theorist to a certain internal structure of assumed preferences, thereby preparing the way for their axiomatic treatment. It is what Sen denominated «internal correspondence» in choice (Sen 1993).

However, there exist agent's characteristics that indicate the necessity to incorporate a wider characterization of the subjectivity of preferences into the analysis. Following the tradition of the literature, we can mention *superior orders of preferences* or *meta-preferences* that would serve as the door to introduce into the analysis elements of higher dimension and difficulty; in particular, to present controversial questions such as the *freedom of choice* or the *freedom of saying no*<sup>9</sup>. The fact that these meta-preferences are present in the individual, allows us to enlarge its characterizing features in several ways.

This amplification has been made in different ways in the literature depending on the author. Among them, we can highlight what has become known as the *agency* aspect of individual behaviour that would be linked with his/her freedom—even before the mere aspect of welfare and its connection with achievements (Sen, 1985b, 1987). This amplification, proposed by Sen, corresponds to one of his first studies on this topic. Other authors also show a concern for the preferences «further on» of the standard (Jeffrey, 1974; Hirschman, 1985).

Sen (1992b) has enlarged the subject's characterization incorporating «motivations» in a general way into his analysis. Sen claims that people sometimes act on a sense of duty or *commitment*. The standard theory does not bear in mind this issue, thus considering cases of choices that go «against the preferences». As an alternative to preferences, he proposed an approach that focuses on *capabilities*. Within this approach the individual's welfare is a function of everything constituting his base abi-

<sup>8</sup> On the conditions that utility functions must verify to generate demand functions, see Barbolla and Sanz (1995).

<sup>9</sup> Notice that the economic factor is an agent «that chooses». Neoclassical Economic Theory assumes that there is always a decision among the alternatives and the theory studies its characteristics. In this way, the agent that does not come to a decision or that suffers a conflict would be outside of the analysis.

lities, among which are those that can be reached discretionally and those that cannot, and others that independently of the individual's will —and of the utility that is associated to the alternatives—, he/she should possess (for example, literacy). Aside from the capabilities, it also incorporates what is denominated *functionings* —aspects that are characteristics of living —in this way, the *state of being* is considered to be a vector of functionings. All such possible vectors of an individual constitute his/her capability set, and represent the welfare opportunities open to him/her that would be linked with his/her freedom. Thus, we could identify the individual's ulterior goals, and we can interpret those «anomalous» elections from the point of view of the conventional theory as possible cases. The individuals' commitments to each other would have been incorporated as a part of the analysis, in such a way that the widest possible characterization of the agent's welfare would have become specially interesting by relating the multiplicity of categories of information about the person and his/her motivations<sup>10</sup>.

### 3.2. *Problematic questions relative to the Theory of Choice*

The previous section has served to identify the questions which are in the frontier between ethics and economics concerning the source of an individual's values.

We now face the following question, from this valuation: how does the individual choose?

As a conventional rule of human behavior, Economic Theory proposes what is known as rational choice; or the election of the best alternative among those possible ones. However, in order to show some additional elements on the debate between ethics and economics, let us consider the following questions: what does rationality mean from a wider point of view that adds an ethical consideration to the problem? and, how can we combine economic behavior based on the individual's interest and on ethical actions?

To cope with these questions, firstly, we will specify what meaning we can attach to the term rationality as a base for economic choice, and what are the links that associate it with other related terms, as well as to what extent can moral aspects be recognized in economic topics. Secondly, we will address the issue of what connection exists between rationality and consistency, since in this way we will be able to study

<sup>10</sup> This would be the external «correspondence of the election» (Sen, 1993).

irrational choice. Lastly, and as a brief conclusion, we will consider how the moral aspect of a choice is related to economic rationality in a problematic way, that is, the moral aspect of economic rationality. All of these issues will permit us to offer the principal lines that configure the debate mentioned above in relation to the Theory of Choice.

### 3.2.1. Rationality, personal interest and self-interest vs. morality

The consideration of the way in which an agent chooses begins with the prediction of real human behavior mediated by the assumption of rationality. In this way, it is said, economists would have opted for the simplification of the assumptions of ethical order, until only one remains: the identification of rationality with the maximization of one's own interest<sup>11</sup> —an interpretation of the *homo economicus*— (Roth, 1999, Chp. 2). Rationality would thus be expressed as the search for self-interest; in such a way that the preferences revealed by agent's choices (Theory of Value) should indicate to us what that agent tries to achieve, under the assumption that the observed choice is the best possible alternative for him/her (Theory of Choice).

The generalization of this assumption of self-interest is not based upon any evidence; it is a hypothesis of human behavior that allows the formulation of behavioral predictions. In this sense, Sen quoted a reflection of Stigler concerning the character of this hypothesis and of its use in conventional economics: «Let me predict the outcome of the systematic and comprehensive testing of behaviour in situations where self-interest and ethical values with wide verbal allegiance are in conflict. Much of the time, most of the time in fact, the self-interest theory (as I interpreted on Smithian lines) will win»<sup>12</sup>.

<sup>11</sup> A lot of work on this conventional characteristic assumed by Economic Theory has been done. The assumption has been criticized and there are several alternatives; see Sen (1973, 1974) and «Rational Fools: A Critique of the Behavioural Foundations of Economic Theory», listed as Sen (1977b). The three mentioned articles have been republished in Sen (1982). See also Hirschman (1985), Broome (1978, 1999) and Hirshleifer (1985).

<sup>12</sup> Stigler's «Economics or Ethics?», mentioned in Sen (1987, p.17).

### 3.2.2. Rationality and axiomatic consistency

How can the idea of rationality be «operative» within economic analysis? As has already been said above, by presupposing a certain analytically tractable correspondence between what the individual chooses and the underlying preferences. In other words, if preferences are internally consistent<sup>13</sup>, it can be affirmed that the agent is rational. This practice implies the identification of *rationality* and *consistency*.

Several problematic issues arise at this point. Once some certain hypotheses of *a priori* consistency of preferences are assumed, the analysis no longer requires choices to judge preferences—but rather it is the other way around—; we can begin with the individual's preferences and, from them, «predict» his/her choices. These choices will be the best possible alternatives or, via the principle of rational behavior, those that guarantee the maximum interest for the individual<sup>14</sup>.

Now then, when do analytical difficulties appear? It is evident that difficulties arise when the notion of rationality is to be applied to an action that incorporates preferences or interests that, *a priori*, seem to be opposed to the individual's own best interest. It is said in this case that the agent, when choosing a certain alternative, acts irrationally or against his own interest. It would be a case outside the analysis showing an opposition between ethic and economic values.

In the deductive process—from preferences to choices—any choice that contradicts or that it is not consequent with the hypotheses and axioms of consistency that are assumed on preferences, would lie outside the analysis. For example, the individual's possible choices that have nothing to do with his individual self-interest directly but rather with that of other people (altruism), or those other choices that are explained by duty and that can even go against the agent's interests. This would mean that, according to conventional Economic Theory, the only way in which the requi-

<sup>13</sup> In this respect, we can mention the work of Sen, especially (1993) on internal consistency in the axiomatic sense.

<sup>14</sup> The work of Becker is often thought of as a possible source of empirical evidence as regards these questions; in this way, it is said that it would serve as a base to justify the obtaining of results beginning with observations and the application of Economic Theory to aspects of people's real lives. We can cite, among others, Becker (1976b, pp. 3-14) and Becker (1962, 1960, 1973, 1974).

rement of self-interest is not fulfilled —that is, being irrational— is to be internally inconsistent.

In short, the explanation offered by standard theory of the choices made by an individual relies on a principle of egoism<sup>15</sup> that, in the end, collapses those dimensions of the behavior of the individual that relate antagonistic ethical motivations to the principle of systematic self-interest<sup>16</sup>. Summing up, the combination of rationality and *morality* presents enough controversial characteristics: it becomes difficult to coordinate the choice of the best alternative —in the sense of self-interest— and the good moral end. For this reason, the attempt to explore both aspects has been one of the recurrent topics in the literature that occupy us<sup>17</sup>.

### 3.2.3. Summary: Moral motivations and rationality

Given the above, the debate «on Ethics and Economics» seems to offer the corollary that we succinctly point out: the self-interest focus of rationality prevailing within economic analysis, assumes that the vision of human motivation based on ethics could be outside. Thus, the real problem would be to know if it is a plurality of motivations, or exclusively self-interest, that moves individuals. By assuming merely self-interested behavior, as points out this literature, makes so little sense as it presupposes that the individual always acts in a disinterested way. If a theory based on the second type of assumption has not been yet formulated, why should we accept a theory based exclusively on the first one? This seems to be enough reason to continue research on this issue.

<sup>15</sup> On the relationship between Smith's work and the origin of the principle of self-interest as a characterization of an agent in Economic Theory, the analysis in Sen (1987, pp. 21-28) is specially critical in some passages. There, the author ends up affirming that it is the reduction of what he denominates the wide human beings' Smithian vision, that can be thought of as one of the most important deficiencies in contemporary economic theory; he also mentions that this impoverishment is closely related to the distancing of Economics and Ethics.

<sup>16</sup> See, for example, Roback (1995a and 1995b).

<sup>17</sup> Harsanyi (1976) and Rawls (1971) are classic works in this line.

### 3.3. *Towards the 'links': some theories*

Once the problematic points have been exposed, it is necessary to point out some attempts to link ethical and economic aspects. Among them, we find the following specially prominent:

1. *The economic theory of altruism and self-interest.* This literature arises when distinguishing between personal well-being and the concern —positive or negative— for the well-being of other people. From this perspective, the standard economic notion of a rational agent conceived as a self-interest maximizer is rejected. Within this literature, individual utility functions are usually specified, with derivative arguments of consumption characteristics of the agent and of other dependent arguments concerning the well-being of other individuals<sup>18</sup>.
2. *Morality and individual advantage.* Another attempt consists of confronting the individual achievement obtained from a rational action, with the mutual advantage that would arise from moral behavior. This literature has developed by starting from the reproduction of alternative situations, in the context of specific and relevant dilemmas as those pointed out above; for example prisoner's dilemma. Its objective is to prove if the strategic interactions among agents can result in acting ways (for reasons of self interest) that we can denominate «morally inferior»<sup>19</sup>.
3. *The motivation approach.* After a period of recent reflection, Sen faced a research agenda which exposes a certain alternative focus to New Welfare Economics —and even to Social Choice Theory—, posing special emphasis on the

<sup>18</sup> Some outstanding works are: Boulding (1973), Phelps (1975), Collard (1978) —considered to be a pioneer work for these topics— Becker (1976a, pp. 817-826) and Becker (1981, cap. 8), Hirshleifer (1977, pp. 500-502) where the author comments on aspects of the focus of Becker, Margolis (1982) and other outstanding publications in the survey, Zamagni (1995).

<sup>19</sup> Some seminal publications on morality and advantage are: Gauthier (1967), Sen (1974, 1977c), Elster (1985), it Shines & Raiffa (1958), Rapoport & Chammah (1965) and Harsanyi (1985). Using game theory to discuss technically different results on advantage, among many references, we can cite Kreps et al. (1982), Rubinstein and Yaari (1983), Kreps and Wilson (1982).



person's multidimensional character<sup>20</sup>. What is intended is to underline the multiplicity of considerations that are involved in human motivation and that, because of the informative restrictions of the Social Choice Theory, lay outside the analysis. For this reason, against the almost exclusive concern for well-being and achievement, it turns out that the possibilities for action and freedom and the person's rights become important. If, because of this, it turns out that it can be difficult—or impossible—to determine a preference ordering, this should not be understood as a limitation of the focus. More recently, Sen emphasised the capabilities approach<sup>21</sup> as the conceptual framework that synthesizes the author's critical position. Using this, Sen attempts to show that, only by starting with a focus on capabilities it is possible to reflect on ethical questions in Economics that do not fit within the conventional framework<sup>22</sup>.

In one way or another, the motivation approach refers to the abilities that organizations (and individuals) have to reach their goals. Indeed, the fact that an organization wants to attain a certain goal does not mean that it has the capacity to undertake the necessary actions to achieve it. In this context, evolutionary theory points out the development of the concept of «dynamic capability» as a learned pattern of collective activity through which the organisation systematically generates and modifies its operational routines in pursuit of improved effectiveness». (Zollo & Winter, 1999: 10). For Dosi et al. (2000: 2-4) «To be capable of some thing is to have a generally reliable capacity to bring that thing about as a result of intended action». In this sense, capabilities fill the gap between intention and outcome. That is, capabilities are renewed and reshaped by the appearance of new intentions linked to new goals (Cañibano, Encinar & Muñoz, 2005).

<sup>20</sup> Sen (1992). See also Sen (1981), Drèze and Sen (1989). In these publications, the author considers the incompatibility of economic theory (of general equilibrium) with human necessities and the persistence of hunger. It was a previous step for constructing a conceptual framework to introduce personal dimensions.

<sup>21</sup> We have exposed the basic lines of this focus in previous sections.

<sup>22</sup> For more details, see Encinar (2002) chapter III, and Encinar (2003).

The first attempt of linking ethic and economic dimensions try to extend the neo-classical framework without abandoning it, by adding elements that are relevant for recognize the presence of «ethical» aspects in the problem, based on the categories of conventional economics. The third attempt has been pointed out as an illustration of incorporation of elements qualitatively superior to the strict neoclassical framework in the perspective of abandoning it, and with the objective that the resulting theory be able to accommodate reflections concerning «Ethics and Economics».

#### 4. ON THE RELATIONSHIP BETWEEN ETHICS AND ECONOMICS

The last question to be answered is to qualify the relationship between Ethics and Economics in light of the above sections.

It is our thesis that the effective relationship between Ethics and Economics is one of mere juxtaposition. We now go on to present the proof of this statement. This test will be developed in three steps. Firstly, we will synthesize the *problematic questions* (step 1) at the frontier of both disciplines and that were discussed in section 3. Next, we will show the *analytic consequences* that these problematic questions have for the relationship between Ethics and Economics (step 2). The perceived difficulty to link the ethical aspects of human action with some standard Economic Theory issues, might allow to qualify the relationship between Economics and Ethics as one of mere juxtaposition (step 3).

Step 1. In general, we can synthesize the central problematic points of the conventional debate regarding the relationship Ethics and Economics as follows.

1. In the literature summarized in this paper, there are not a line of research that allows us to discern with clarity what is exactly meant by fundamental concepts as utility, preferences and welfare. In fact, a widespread use of the concept of utility embraces almost everything that is valued: we refer to this as the *moral of utilitarianism*.
2. The only valuable thing is the achievement, in consequence terms, of the individual objectives of an action, so the final choice can be determined by the calculation, *a priori*, of the goodness of the consequence in terms of individual well-being. That is, it identifies what is good —and then chooses it— with what reports positive achievements in terms of individual welfare, independently of the value of the action itself: *moral of achievement*.

3. The agent's subjectivity is characterized by unknown preferences and by those particular characteristics assumed in order to make them especially tractable from a formal point of view.
4. An entire literature has raised concerning the *lax* meaning of utility (as a representation of the underlying preferences), related to its commensurability and/or comparability, but forgetting that the mere removal of the concept of utility would have guided the discussion in other directions (nowadays, unexplored).
5. The principle of economic behavior or rationality is identified with maximum self-interest, and as such the necessary incompatibility with many of the individual's real actions is verified.
6. For preferences to point out the best alternative for the individual (in the sense indicated in 5 above), they should be *internally consistent* with his/her choices. Furthermore, the irrational (inconsistent) behavior can only be interpreted as an *analytic anomaly*.

Step 2. The examination of points 1 to 6 gives rise to a series of consequences that justify a research program under the epigraph of «on Ethics and Economics». These consequences have been the object of debate and polemic over the last thirty or forty years; its recurrence in the specialized economic literature would seem to be indicative of a certain inertia in the polemic between Ethics and Economics. Let us summarize by adding to the numeration an asterisk to indicate that we propose this point as a main derivative consequence.

*Analytic consequences* for the ethics-economics relationship:

- 1\*. From 'moral of utilitarianism'. Extension of conceptual, wide and diffuse uses, of terms related to subjectivity as if they were synonymous, with the objective of not becoming overly committing to the widespread view of the search for happiness as a good end for the individual. In this way, the individual embarks upon a procedure of calculation, based on a concept of utility that embraces almost everything that he/she may value.
- 2\*. From 'moral of achievement'. The calculation *a priori* of the goodness of the consequence implies that strict consequentialism may be the agent's vital norm.

- 3\*. From 'unknown preferences'. The assumptions on preferences necessarily impose a series of conceptual and analytic restrictions that impede the recognition in the analysis of what «goes further on», that is, the individual's meta-preferences. Also, the «choosing» determinism that this type of procedure implies, leads to the appearance of real choices by the individual that seem to go against the preferences: that is, «counter-preferential» choices.
- 4\*. From 'lax meaning of utility'. The debate on comparability —between the old theoretical tradition of welfare and the new SCT—, based on the concept of utility in a *lax* sense, has impeded the removal of the very concept of utility. It has rather led to discussions on such things as the ethical trials, non-ethical issues, normative issues, etc., which are not very effective to fill the conceptual gap.
- 5\*. From 'self-interest'. The self-interest as principle of rationality has extended the casuistry of «the irrational» (altruistic actions, conflicts of interest, indecision...) in the literature about Ethics and Economics, as a verification of the fact that such actions are frequent.
- 6\*. From 'internal consistency'. Utility in a *lax* sense and the casuistry of «the irrational» —4\* and 5\* above— imply that the mechanism of *internal inconsistency* of preferences when revealing an agent's choices is the only way to accommodate his/her «anomalous» choices analytically in an *ad hoc* fashion<sup>23</sup>.

Step 3. An examination of the two previous steps (synthesis of conventional problems and their analytic consequences) with the purpose of qualifying the relationship between ethical and economic aspects of the agent, allows us to point out that only the utilitarianism and consequentialism ethics is compatible with the representative agent modelled by the conventional Economic Theory. Thus, all additional ethical considerations other than mere self-interest (e.g.: altruism, motivations, etc.) often present in agent's decision, will generate «irrational» choices or «anomalies» that cannot be easily accommodated within the standard theoretical framework. The developments presented in this paper and the validity of the debate proves this point.

<sup>23</sup> For more details, see Sen (1993).

Several ethical problems in the decisions of individuals that are not susceptible—according to their characteristics—of being interpreted under the analytical prism of utilitarianism or strictest consequentialism they continue «without explanation» since they are outside of the domain of definition of the standard theory.

In this sense and from the point of view of the question that we have considered in this section, we can qualify the relationship between Ethics and Economics as of mere juxtaposition.

The debate «on Ethics and Economics» is the result of an analytic task consisting on putting Ethics and Economics *together*. The aforementioned anomalies that emerge from the conventional theory—that encourage, in turn, the very existence of the debate and of the resulting literature—are useful to certify the presence of ethical questions in processes of valuation and choice. However, this theory does not provide a sufficiently coherent analytic base to link agent's behavior based on non self-interested motivations (that is the case, for example of Environmental Policy). A coherent analytic base for establishing these links would avoid the use of *internal inconsistency* of preferences as an interpretation of «anomalous» agent's choices.

## 5. CONCLUSION

The reflection «on Ethics and Economics» is not new but recurrent in the economic discipline. However, it continues to be an open question what is the relationship between the two terms. Since all choice processes assume an agent's valuation, it would seem natural to introduce a certain harmony among the values pursued by the agent and his economic decisions. However taking as starting point the group of observable choices, it is not possible, from conventional theory, to «re-construct» a framework of valuations from the one in which the rational agent, in the economic sense, articulates his/her choices.

In this way, two explanatory alternatives arise. Either it is a framework of tautological valuation (all that is chosen is valued as the best alternative and the best alternative is the one that is indeed chosen) or it is a «generating» framework of anomalous elections (e.g.: irrational or inconsistent from the point of view of conventional economic rationality: altruism, philanthropy, etc.). Given this, we find a catalogue of several problematic questions that have to do with the ends pursued by the agent, and that serves as a foundation for the development of the debate «on Ethics and Economics».

The attempts to overcome these questions, by means of notions like meta-preferences, agency or commitment, connect directly to the ethical dimension that any

Theory of Value presupposes. Moreover, in the Theory of Choice, the identification of rationality, consistent choice and self-interest impedes a correct understanding of behaviors like altruism or others whose consequences do not directly affect a particular agent.

The perceived difficulty to link the ethical aspects of human action with some standard Economic Theory issues allows showing that the state of the current relationship between Ethics and Economics, in the context of the conventional debate, is of mere juxtaposition.

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